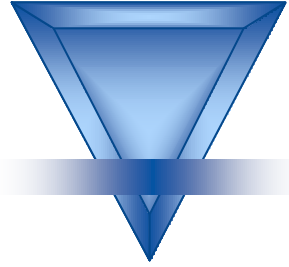


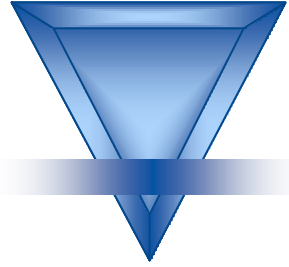
Strategic Committee on Postsecondary Education (SCOPE)

August 13, 2002



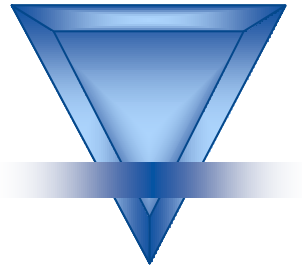
State Budget/Revenue Report

- I. Update on 2001-02 National Recession
- II. FY '02 Budget Summary
- III. Next Steps



I. Update on 2001-02 National Recession

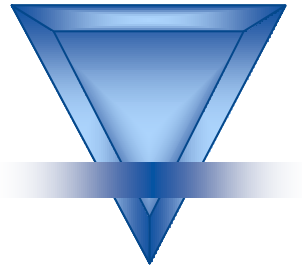
- A. Employment and Related Impacts
- B. Inflation Impacts
- C. Data Issues
- D. Other States



I. Update on 2001-02 National Recession

A. Employment and Related Impacts

- In 1981-83 National Recession
 - ① Kentucky Lost Jobs!
 - ① Inflation was 10.3%
 - ① Mortgage Rates were 18.5% (30 year)



I. Update on 2001-02 National Recession

A. Employment and Related Impacts continued

➤ In 2001-02 National Recession

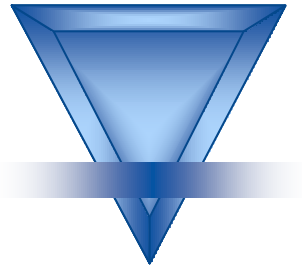
① Kentucky's employment stable

△ **Losses:** Manufacturing/Transportation/
Communication

△ **Gains:** Services, Retail/Wholesale

① Inflation Rates = 1.8%

① Mortgage Rates = 6.7% (30 year)

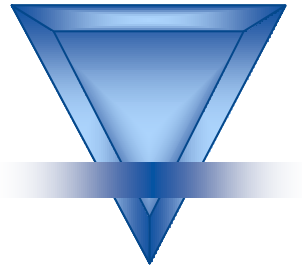


I. Update on 2001-02 National Recession

A. Employment and Related Impacts continued

- Because of problems finding employees in mid/late 1990s – companies job reduction pattern
 - △ Overtime loss
 - △ Reduced work week
 - △ Eliminate bonuses
 - △ Layoffs
 - △ Closings

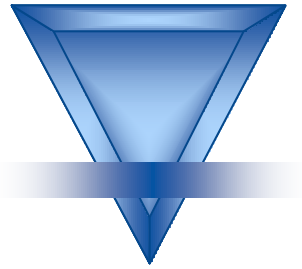
Harder to see employment impacts, but real impacts on state revenues



I. Update on 2001-02 National Recession

B. Inflationary Impacts

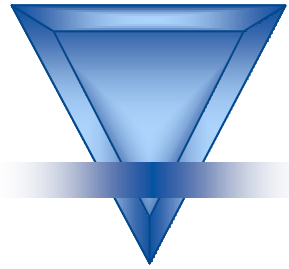
- With 1981-83 Rapid Inflation → State Revenues Rose
- With 2001-02 Low Inflation → State Revenues Decline



I. Update on 2001-02 National Recession

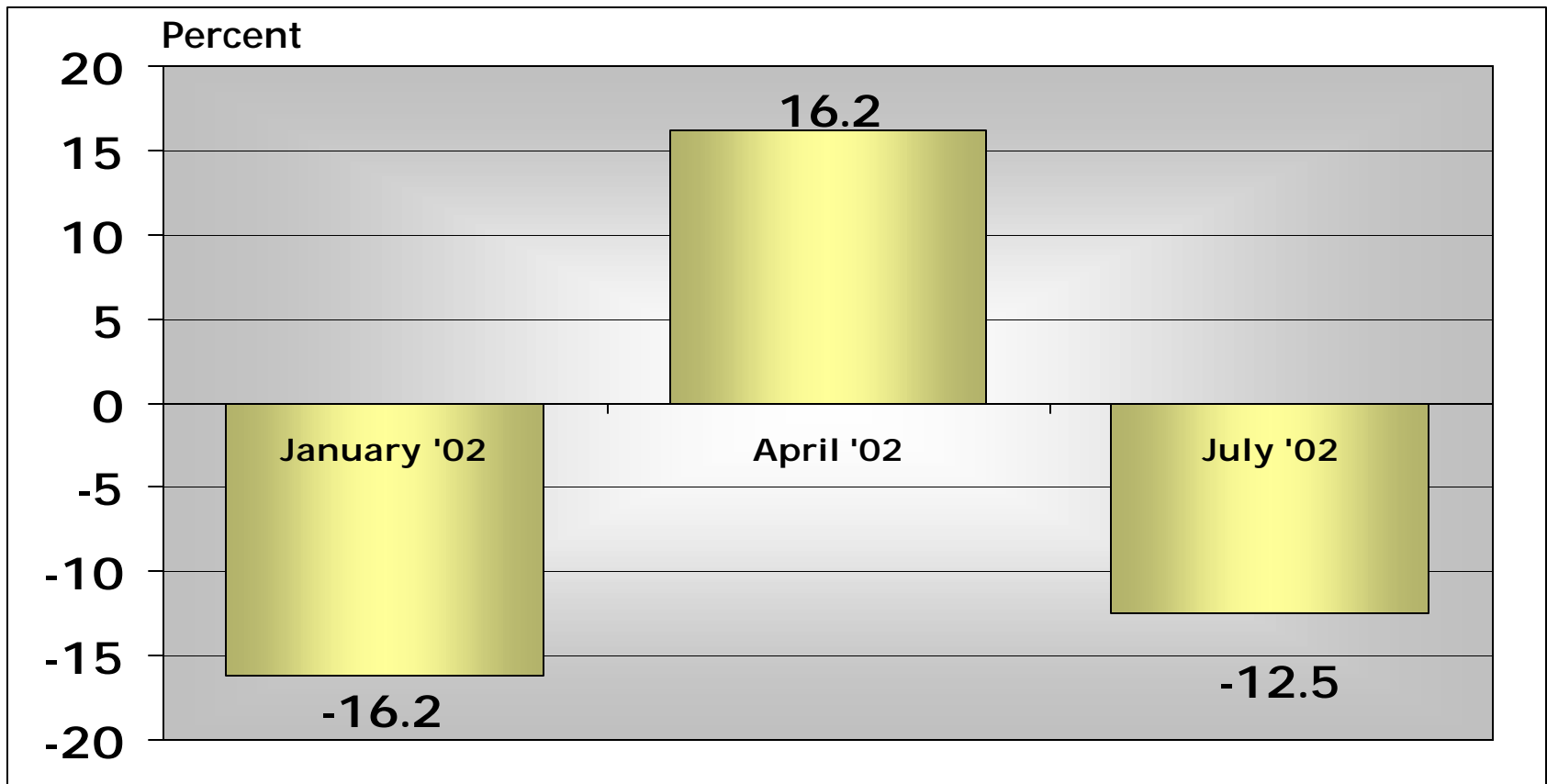
C. Data Problems

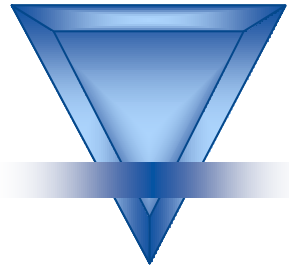
- States use National Forecasting Models
- National/State Forecasting Models Utilize Federal data
- Federal data sources continually revised



I. Update on 2001-02 National Recession

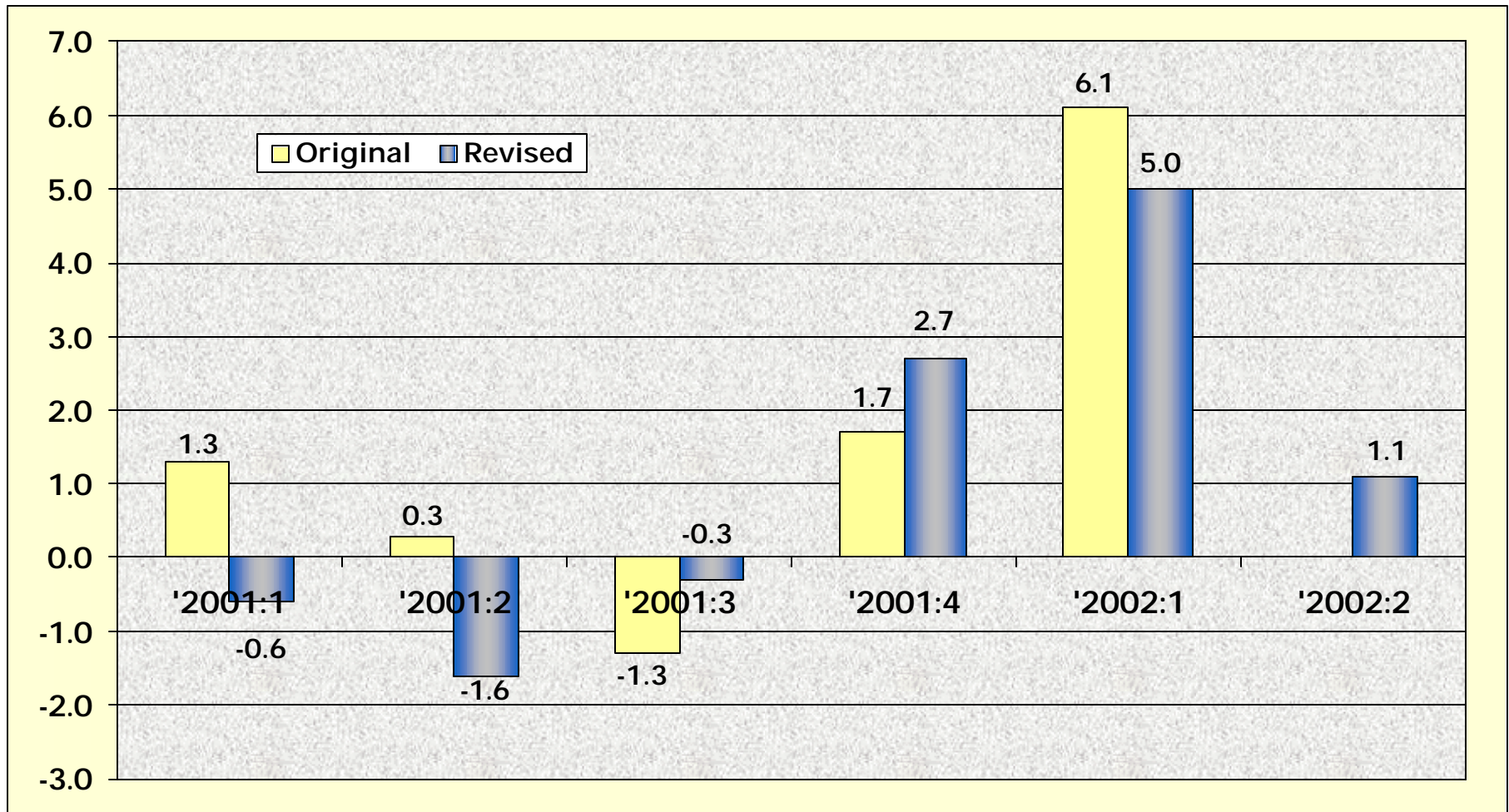
Durable Goods: Data revising 2001:3

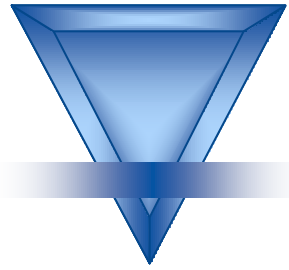




I. Update on 2001-02 National Recession

GDP Revisions

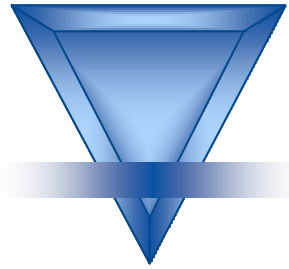




II. FY '02 Budget Summary

A. Principles for Managing

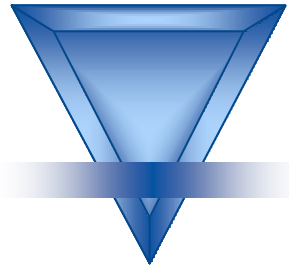
- Budget Reduction Plan (HB 502)
- Exempt Education from Cuts
- Avoid Layoffs
- Continue authorized capital projects
- Maximize program savings/efficiencies
 - ① Process efficiencies: EMPOWER Kentucky
 - ① Financial efficiencies: Refinancings
 - ① Management efficiencies: e.g., overtime



II. FY '02 Budget Summary

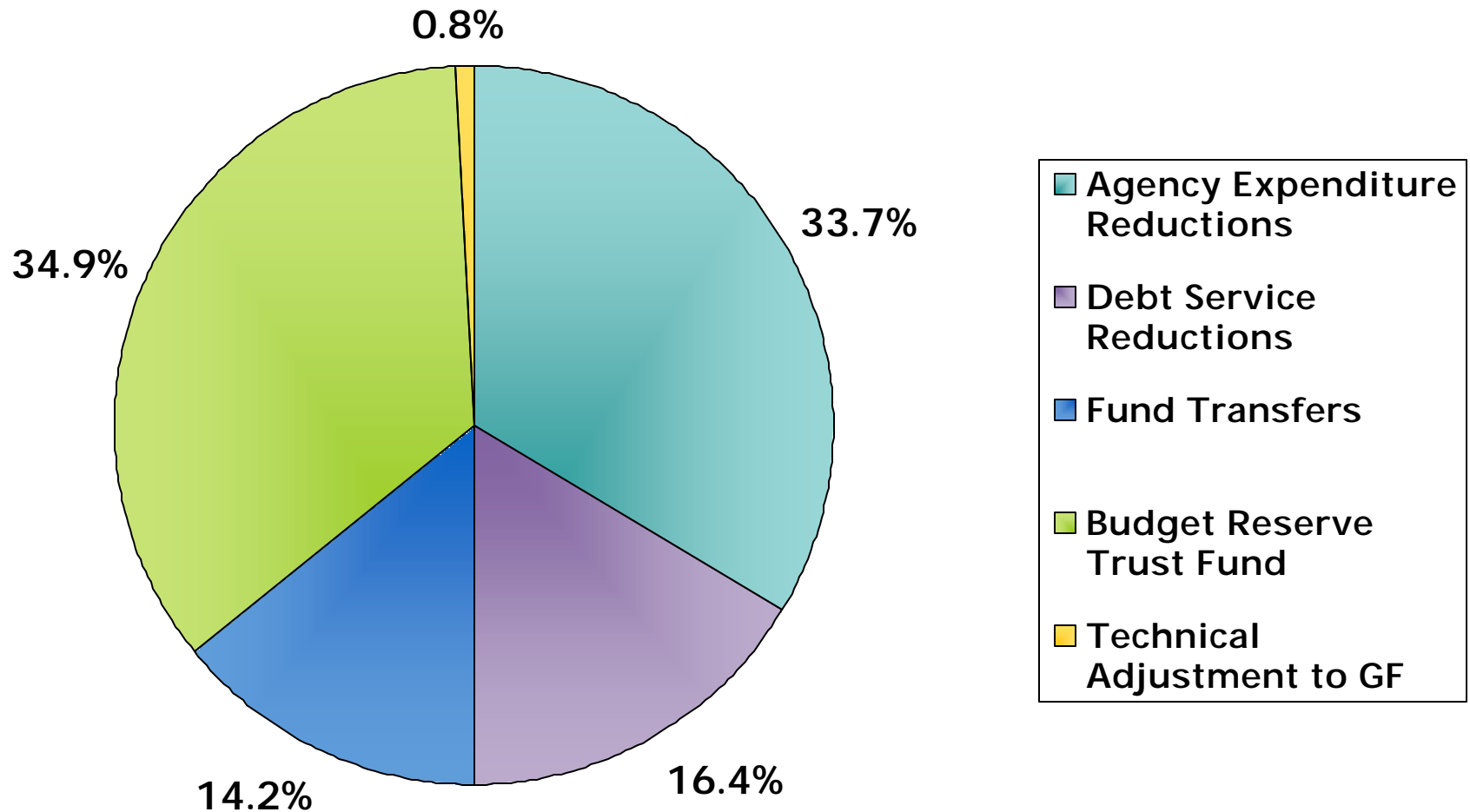
B. FY '02 General Fund Budget Shortfall and Balancing Actions

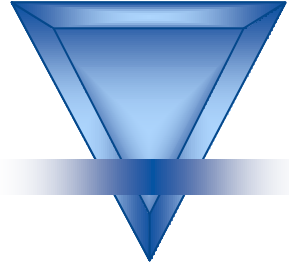
FY '02 Budget Shortfall	Total – FY '02
Revenue Shortfall	\$617,555,601
General Assembly Budgeted Lapse	15,000,000
Severance Tax Dedicated Revenues	11,884,000
SEEK Restoration of First Round Budget Reduction	15,860,000
Lottery Dedication of Increased Receipts	9,120,000
HB 707-Legislative Claims Bill	644,800
Current Year Appropriations	330,000
Estimated Necessary Government Expense	16,711,100
Total Budget Shortfall	\$687,105,501



II. FY '02 Budget Summary

FY '02 Balancing Actions
(\$687,105,501)

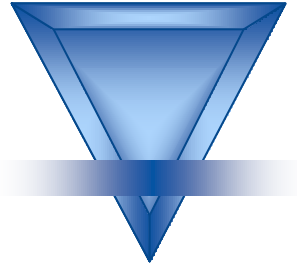




II. FY '02 Budget Summary

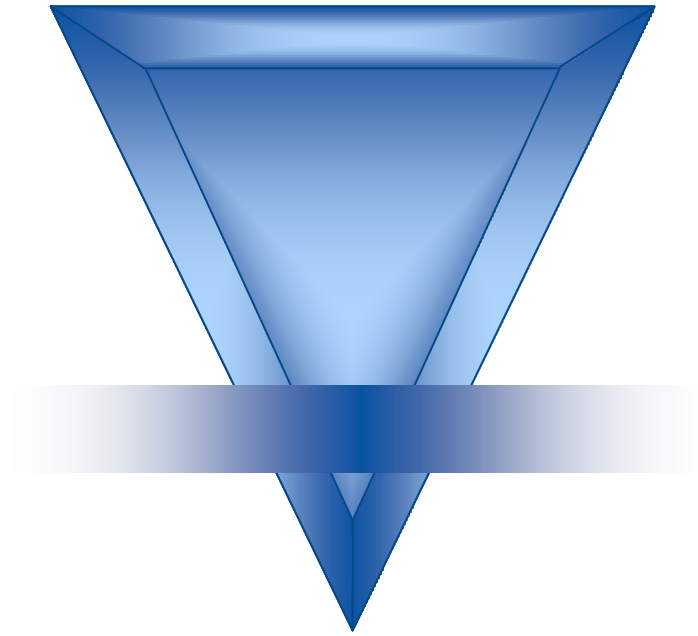
C. Impacts:

- K-12: No reductions
- Postsecondary: Minor Reductions
- Rest of Government: 5%-6% reductions



III. Next Steps

- A. Work with Federal Agencies on Data problems**
- B. Discussions with Business Leaders on Economic Outlook**
- C. Reviewing Estimating Process and Models**
- D. Subscribe to two National Forecasting Services**
- E. Review of First Quarter Receipts**
 - **Isolate Impacts of Amnesty**
- F. Convene Consensus Forecasting Group**



Strategic Committee on Postsecondary Education (SCOPE)

August 13, 2002